

Testimony before the U.S. Trade Deficit Review Commission

Public Hearing

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I. The US trade deficit is a problem for monetary policy, but not for commercial policy.

1 Discussion of the cur-rent account **deficit** is often mistaken, since it usually does not recognize a fundamental **accounting identity** – the current **account equals the capital account**. This accounting **identity** means that when we export too few goods and services to pay for our imports, we export instead pieces of paper that represent claims against future US output. We export US Treasury securities, and real estate deeds, and US **equities**<sup>1</sup>

2 The **very** word “deficit” prejudices the conversation. My Microsoft thesaurus offers four synonyms for a **deficit**: shortage, **paucity**, **lack** and **deficiency**. Clearly we want none of these. To use this word

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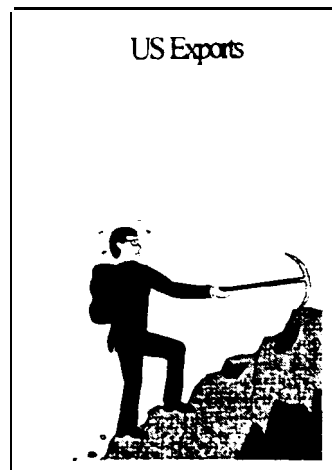
<sup>1</sup> Our **desire to export** paper **claims** and foreigners’ willingness to accept those claims can be influenced both by changes in the markets for goods, and also by changes in the markets for assets. For example, on the goods side of the equation, we **may** run a **deficit** because of a sharp rise in the price of **imported** oil (we have to heat our homes), or because of a sharp fall in the **price** of imported apparel (like buying at an **after-Christmas** sale). We may also run a **deficit** because the US has great investment opportunities and because we don’t have enough **savings** to **take advantage** of all of the **opportunities**, or because foreign investors are **willing to pay** more for our assets than we think they are worth.

"deficit" is thus to accept mercantilist attitudes that exports are good and imports are bad. Better to call it a loan than a deficit. A loan is a good thing if the proceeds are wisely used.

3. **The trade** barriers that make it **difficult** to sell US products **in Japan**

and China and other Asian countries do not cause the bilateral deficits with those countries.<sup>2</sup> Trade negotiations that **open up the Asian markets** to US goods would benefit both the US and Asia, but have no discernible effect on the US deficit.

4. The US is running a trade deficit today primarily because the US offers global investors an extremely attractive combination of low risk and high returns, and because we have a very low savings **rate** and not enough cash ourselves to take advantage of all the new Investment **opportunities**.<sup>3</sup>



5. This deficit causes a **very serious** problem for Mr. Greenspan and for the conduct of monetary policy. If, as is happening as we speak, the Asian and Latin American market risk declines substantially, and if US equip appreciation starts to slow down, then global investors are **likely** to return to the emerging markets and abandon the US. If this happens, the US trade **deficit** will close- that's the **accounting identity**. Rapid adjustment of the trade **deficit** can only be accomplished on the **import side**-it takes a lot more time to develop and to expand markets for US exports. A falling value of the dollar that makes imports more **expensive** can help to reduce US imports, but the **price responsiveness** of imports is too low to eliminate the US **deficit**.




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<sup>2</sup> I give my students the following homework problem, which I label UNFAIR TRADE. Suppose that Japan is located at the top of a tall **mountain** and the US is at the bottom. Suppose that Japanese goods can **effortlessly** be moved to the US market -they are just placed on a chute and **gravity** does the work. Suppose, on the other hand, that it is **very difficult** to lug US goods up the **mountain** to Japan. QUESTION: (a) Does this cause a US trade **deficit**? (b) Who **pays** for **lugging** US goods up to Japan? ANSWER: The answer to part (a) is "not at all". **Rational** Japanese at the top of the hill are not going to give away their goods **indefinitely** with nothing in return. The answer to part (b) is "It depends." A **disproportionate** share of the transportation costs is borne by the **economy** with the least elastic supply and demand. Thus there is **nothing unfair** here at all about the trade **barriers**. It doesn't matter at all if you are at the bottom or the top.

without an unacceptable amount of imported inflation. More likely, Mr. Greenspan will be forced to lower US imports through an income effect -- by tolerating a serious economic downturn. This he would accomplish by increasing interest rates to defend the dollar against what will seem like a speculative attack. In other words, the US in 2001 may look like Mexico in 1995 with high interest rates, slow or negative growth, and rising unemployment, but with the trade deficit closed.'

6. US commercial policies, except those that inappropriately discourage savings, should not be designed with reference to the trade deficit. I understand that the trade deficit has great power rhetorically in policy debates about trade and wages, but that is dangerous rhetoric since the problems will remain even if the deficit is closed.
7. Counting jobs lost because of NAFTA is also powerful but dangerous rhetoric, which has been rendered silly by the current low US unemployment rate. The real question is not how many jobs are lost. The question is what kind of work will Americans be doing; what will be the working conditions and the rates of pay?

II. There was a push and a pull in the US workplace in the first two-thirds of the 20<sup>th</sup> Century: mostly a push in the last third.

8. During the first two-thirds of the century, workers were pushed off of farms by productivity increases that allowed the few to feed the many.<sup>3</sup> This push off the farms was accompanied by a strong pull into Jobs offering better pay on the factory floor.<sup>4</sup>
9. In the last third of the 20<sup>th</sup> Century, US workers were pushed out of the factory by productivity increases that allowed the few to make the products for the many.<sup>5</sup> This push was not accompanied by any significant pull to better jobs in other sectors. Absent job growth in manufacturing, workers found the best jobs available in retail trade, in health care, in state and local government and in business.

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<sup>3</sup> The flow of investment funds into the US has driven up the value of the dollar, making imports cheaper and making our exports more expensive. Thus the demand for US assets has created a trade deficit.

<sup>4</sup> This is not my prediction. This is a possible scenario.

<sup>5</sup> Agricultural employment fell from 39% of the workforce in 1900 to 2% in 1970.

<sup>6</sup> Consumer demand created by increases in wealth, as well as a vast array of new products, and three hot wars and one Cold war supported the increase in the US manufacturing share of employment from 19% in 1900 to 27% in 1970.

<sup>7</sup> The manufacturing share of employment fell from 27% in 1970 to 16% in 1997.

services. These new activities offered high wages for the most educated, but those with a high school education or less have been left behind economically. For some of the details, please see the attached table.

### III. Think of Trade as a Way for Microsoft to Make Apparel.

10. Both automation and international trade have contributed to the decline in manufacturing jobs and the rise in inequality. Many academics think that trade has not mattered very much. I do not think that the evidence is compelling in either direction. Job losses in apparel and textiles are surely related to globalization, but some academics argue that trade with low-wage countries is too small a share of GDP to matter very much. To which I reply: The realized volume of trade is irrelevant. What matters is contestability. The fraction of US jobs that are contested by low-wage foreigners is much larger than import volumes suggest. If you have the time and interest, I will explain to you how even my barber's job is contested by Chinese workers.

11. The policy debate over trade would be greatly improved if we treated trade as a technological innovation that allows Boeing machinists, Microsoft programmers and Warner Brothers creative artists to sew garments and footwear and to assemble toys with great efficiency. Not literally of course. Those L'S workers fill our stores with labor-intensive products by first making aircraft and software and movies, and then by trading these US products with developing countries for the garments and the shoes and the toys.

12. Most of us understand that Luddite restrictions on automation would be a big mistake. But we don't seem to understand that trade barriers amount to Luddite restrictions that limit the indirect productivity improvements from the international division of labor.



IV. Education and infrastructure are the right policy choices, not trade barriers.

13. By greatly reducing the need for high-school graduates in manufacturing, automation and international trade are both contributing to a serious lowering of earnings of our least skilled workers. Every one on this Commission with children knows the solution to this problem. We are all equipping our children

with the intellectual assets that will allow them to do well in the 21<sup>st</sup> century. Absent those intellectual assets, our children will be in ruinous competition with both computers and with low-wage foreign workers.

- 14 **Education** will solve the **problem for** our most intelligent children, but what about the **average Joe** in **Dallas and Los Angeles** who is **economically** indistinguishable **from** the average Chen in Shanghai? In the seamless global village of the future, will **geography** no longer matter? Will Joe and Chen receive the same wages? Maybe, but maybe not. It depends on whether or not Joe and Chen produce the same products. If we compete in the same product markets as the Chinese, our workers have to be paid the same as the Chinese, adjusted for productivity differences if any. But we don't have to make the footwear, the apparel and the toys here. If we don't make the same products that are made in China, we create a dual labor market, with the workers embodied in imports from China not in competition with US natives

- 15 How do we disconnect our labor markets from the Chinese labor markets? We must make the educational and infrastructure investments that support a skill-intensive and capital-intensive mix of tradables. We don't have to educate everyone. We can have high wages for the average Joe who is economically indistinguishable from the average Chen if there are no Joes making the same products as the Chens

- 16 The existence of an apparel industry is a symptom of an economy with too many unskilled workers to allow it to disconnect from competition with low-wage countries

V. NAFTA amounts to a commitment to free trade generally, not just with Mexico.

- 17 The NAFTA needs to be understood in its proper context. There are two doors through which flow products from low-wage developing countries into the US market: an Asian door and a Mexican door. Most product has come through the Asian door. With the Mexican door to the US markets wide open by international agreement, any move to close the Asian door would only divert trade through the Mexican door, and would have no effect on US markets.

**The Mexican Door**



Thus without really realizing it, by signing NAFTA, we have made a **very** serious commitment to free trade generally, not just trade with Mexico.

## VI. Distance matters greatly, but Mexico is right next door.

18. The depressive effect of distance on international trade in manufactures is **very** strong and hasn't noticeably declined with the vast improvements in transportation and communication in the last 50 years. This is important because the threat to the US workforce represented by the Chinese, and Indonesians and Indians is greatly attenuated by distance. While there are a few products like apparel that do travel great distances, most products do not. For example, US autoworkers need not worry about the low-wage Asian workforce. The shipment of autos across the Pacific from Japan to the US was an economic **anomaly** that is **being** corrected by the transplantation of Japanese auto production to the US.

19. The northern states of Mexico abut right against our southern border. The Mexican workforce being so close accordingly represents a much broader threat to American manufacturing jobs than does the Asian work force. But to put a positive spin on it, Mexico is a much better opportunity for the US. It's a threat if we don't do **something** about our public educational system which is pumping into the workforce too many Joes who are **economically indistinguishable** from the Juans and the Chens. But trade with Mexico is an opportunity that will improve the economic well-being of most US workers, if we can get our act together in our public high schools.

Thus I would summarize my comments as follows: Education, education, and education.

Employment and Compensation, 1970 and 1997

	Full-Time Equiv Employees 1000s				Compensation per FTE, 1000s( 1997\$) -		
	1970	1997	Change	Growth	1970.0	1997.0	Growth
TOTAL DOMESTIC INDUSTRIES	71158	116029	44871	63%	35.1	40.4	15%
TRADABLES	20801	20762	-39	0%	37.6	46.0	23%
AGRICULTURE, FORESTRY & FISH.	1280	1835	555	43%	18.2	22.9	26%
FARMS	1041	751	-290	-28%	16.3	22.4	37%
AGRI SVCS. FORESTRY & FISH	239	1064	845	354%	26.2	23.2	-11%
MINING	615	588	-27	-4%	44.0	61.3	39%
MANUFACTURING	18906	18339	-567	-3%	38.7	47.9	24%
DURABLE GOODS	11064	10874	-190	-2%	41.1	50.2	22%
MOTOR VEHICLES & EQUIPMENT	797	974	177	22%	50.0	61.4	23%
TRANS EQUIP., EXC. MOT VEH & ORD	1027	650	-177	-17%	49.4	59.6	20%
INSTRUMENTS & RELATED PROD	524	850	326	62%	40.3	59.3	47%
PRIMARY METAL INDUSTRIES	1243	705	-538	-43%	44.7	54.9	23%
MACHINERY, EXC ELECTRICAL	1956	2139	183	9%	43.2	53.5	24%
ELECT EQUIP & SUPPLIES	1843	1671	-172	-9%	39.3	52.2	33%
STONE, CLAY & GLASS PRODUCTS	633	544	-89	-14%	38.4	44.0	15%
FABRICATED METAL PRODUCTS	1533	1461	-72	-5%	39.5	43.4	10%
MISC MANUFACTURING INDUST	414	387	-27	-7%	31.6	36.3	14%
FURNITURE & FIXTURES	422	501	79	19%	29.9	33.5	12%
LUMBER & WOOD PRODUCTS	672	792	120	18%	30.2	33.1	10%
NONDURABLE GOODS	7842	7465	-377	-5%	35.2	44.5	26%
PETROLEUM & COAL PRODUCTS	187	135	-52	-28%	57.2	81.7	43%
TOBACCO MANUFACTURES	79	40	-39	-49%	34.7	75.8	118%
CHEMICALS & ALLIED PROD	1010	1019	9	1%	45.6	70.2	54%
PAPER & ALLIED PRODUCTS	694	674	-20	-3%	39.5	51.6	31%
PRINTING & PUBLISHING	1021	1463	442	43%	39.9	45.1	13%
RUBBER & PLASTIC PRODUCTS	593	981	388	65%	37.3	39.4	6%
FOOD & KINDRED PRODUCTS	1713	1651	-62	-4%	36.2	39.1	8%
TEXTILE MILL PRODUCTS	946	610	-336	-36%	26.9	31.9	18%
LEATHER & LEATHER PRODUCTS	307	89	-218	-71%	25.8	30.5	16%
APPAREL & OTHER TEXTILE PROD	1292	803	-489	-38%	23.9	25.3	6%
NONTRADABLES	50377	95770	45393	90%	34.0	39.0	15%
CONTRACT CONSTRUCTION	3481	5739	2258	65%	43.4	39.6	-9%
TRANS & PUB UTIL	4341	6032	1691	39%	43.7	50.4	15%
WHOLESALE TRADE	3864	6452	2588	67%	40.6	48.2	18%
RETAIL TRADE	9329	18745	9416	101%	26.1	22.5	-14%
FINANCE, INSUR. & REAL ESTATE	3491	6784	3293	94%	35.8	56.7	59%
SERVICES	11247	33615	22368	199%	27.9	36.0	29%
BUSINESS AND PROFESSIONAL SVCS	2313	11610	9297	402%	36.7	42.6	16%
MEDICAL & OTHER HEALTH SVCS	2520	8984	6464	257%	29.2	41.5	42%
EDUCATIONAL SERVICES	900	1912	1012	112%	30.6	30.2	-2%
RECREATIONAL SERVICES	1216	3404	2186	179%	26.1	29.5	13%
REPAIR SERVICES	541	1539	998	164%	30.2	29.0	-4%
NONPROFIT MEMBERSHIP ORG	1743	4219	2476	142%	23.1	23.8	3%
PERSONAL SERVICES	856	1159	301	35%	24.5	22.5	-8%
PRIVATE HOUSEHOLDS	1154	788	-366	-32%	15.7	15.2	-3%
GOVT & GOVT ENTERPRISES	14624	18403	3779	26%	36.5	47.7	31%
FEDERAL GOVT & GOVT ENTERPR	6094	4307	-1787	-29%	37.5	62.0	65%
STATE & LOCAL GOVT & GOVT ENTER	6530	14096	5566	85%	35.0	43.3	21%

US Imports from Mexico and China: Top 10 2-digit SITC groups  
Billions of Dollars

SITC		1996	1999 Est.	Annualized Growth Rate
MEXICO				
	All commodities	73.0	108.7	14%
1	85 Electrical Machinery And Equipment And Parts There	18.7	28.7	15%
2	87 Vehicles, Other Than Railway Or Tramway Rolling St	14.0	20.3	13%
3	84 Nuclear Reactors, Boilers, Machinery And Mechanica	7.9	14.2	22%
4	27 Mineral Fuels, Mineral Oils And Products Of Their	6.8	6.5	-1%
5	62 Articles Of Apparel And Clothing Accessories, Not	2.3	44	25%
6	90 Optical, Photographic, Cinematographic, Measuring,	2.3	3.7	17%
7	98 Special Classification Provisions. Neso	2.2	3.5	16%
8	94 Furniture; Bedding, Cushions Etc.; Lamps And Light	1.8	3.4	24%
9	61 Articles Of Apparel And Clothing Accessories, Knit	1.5	3.3	31%
10	7 Edible Vegetables And Certain Roots And Tubers	1.4	1.5	2%
CHINA				
	All commodities	51.5	80.9	16%
1	85 Electrical Machinery And Equipment And Parts There	8.9	14.6	18%
2	95 Toys, Games And Sports Equipment, Parts And Access	7.5	11.1	14%
3	84 Nuclear Reactors, Boilers, Machinery And Mechanica	4.5	10.2	32%
4	64 Footwear, Gaiters And The Like Parts Of Such Arti	64	84	9%
5	94 Furniture; Bedding, Cushions Etc.; Lamps And Light	2.4	5.7	33%
6	62 Articles Of Apparel And Clothing Accessories Not	3.5	3.7	2%
7	42 Articles Of Leather, Saddlery And Harness, Travel	2.6	2.9	3%
8	39 Plastics And Articles Thereof	17	24	12%
9	90 Optical, Photographic, Cinematographic, Measuring,	1.5	2.2	13%
10	61 Articles Of Apparel And Clothing Accessories, Knit	1.5	2.0	10%



## Position Description

**Position Title:** Administrative Services Manager

**Agency:** Office of the Governor

### Principle Responsibilities

Provides office management and administrative support services for the Office Of the Governor including purchasing and procurement, facilities and equipment maintenance, budget allotment, and attendance and related record keeping. Maintains employee records, writes appointment letters, processes background checks, and provides information to staff on health benefits, leave accrual, and other personnel related issues. Acts as the public records officer.

### Examples of Specific Responsibilities

Acts as a liaison with the Department of General Administration on all facilities matters.

Maintains proper inventory of office supplies.

Facilitate8 printing orders and reconcile8 printing invoices.

Negotiate6 equipment maintenance contracts with the Department of Printing.

Recommends and initiates office equipment lease/purchase.

Assigns employee parking.

Acts as agency attendance keeper including regular attendance reports and tracking accumulation of compensatory and exchange time.

Acts 88 the agency representative In the State Auditor's annual audit.

Coordinate3 office moves/relocations.

Acts as the agency public records officer and researches and responds to requests for public information.

### Qualifications and Key Competencies

Ability to: respond effectively in meeting staff equipment needs; research and work within state procurement and purchasing regulations; negotiate maintenance